

Message Text

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C O N F I D E N T I A L SECTION 1 OF 5 LIMA 1798

LIMDIS

EO 11652 GDS

TAGS: EIND, BDIS, EMIN, ENRG, EFIS, EFIN, PFOR, PE, US

SUBJ: GREENE MISSION - ELEMENTS LEADING PERU TO
AGREEMENT AND THEIR IMPLICATIONS

1. SUMMARY: ON FEBRUARY 19, 1974, THE GOVERNMENTS OF THE UNITED STATES AND PERU SIGNED AN AGREEMENT RESOLVING OUTSTANDING INVESTMENT DISPUTES, THUS REMOVING A MAJOR AND PERSISTENT IRRITANT IN RELATIONS BETWEEN THE TWO COUNTRIES. WHAT WERE THE PRESSURES ON THE PERUVIAN GOVERNMENT WHICH LED IT, AFTER MORE THAN FIVE YEARS OF CONFRONTATION, FINALLY TO PUT AN END TO THESE APPARENTLY INTRACTABLE DISPUTES? INFLUENCES WERE MANY, SOME OF WHICH GREW IN IMPORTANCE AS NEGOTIATIONS CONTINUED. HOWEVER, THERE IS LITTLE DOUBT THAT THE FALL OF THE ALLENDE REGIME IN CHILE AND PERU'S GROWING SENSE OF ISOLATION IN THE HEMISPHERE PROVIDED THE FINAL AND MOST IMPORTANT IMPETUS. OTHER FACTORS WERE: (1) THE CONTRIBUTION WHICH AN AGREEMENT COULD MAKE TOWARD STABILIZING CONDITIONS FOR PERU INTERNALLY AS WELL AS EXTERNALLY; (2) CONCERN FOR THE ECONOMY, INCLUDING CONTINUED AVAILABILITY OF FOREIGN ASSISTANCE; (3) AN EFFORT TO OFFSET CLOSER RELATIONS WITH THE SOVIETS, AND PERHAPS TO COUNTERBALANCE THE PURCHASE OF SOVIET TANKS; AND (4) THE PROSPECT THAT THE APPEARANCE OF RAPPROCHEMENT WITH THE UNITED STATES COULD LEND ADDED RESPECTIABILITY AND PERMANENCE TO THE VELASCO REVOLUTION.

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2. THE AGREEMENT HAS BEEN APPLAUDED BY THE U.S. PRESS AS A DIPLOMATIC ACHIEVEMENT BY THE ADMINISTRATION OF CONSIDERABLE IMPORTANCE IN FUTURE RELATIONS WITH THE HEMISPHERE. CONVERSELY, IN PERU, THE GOVERNMENT ORIENTED AND CONTROLLED PRESS REGARDED THE AGREEMENT AS A "VICTORY" IN A STRUGGLE WITH AN IMPERIALIST POWER WHICH WAS FINALLY FORCED TO ACCEPT THE LEGITIMACY OF THE PERUVIAN MODEL. FOR VELASCO, THE PERSPECTIVE WAS, IN FACT, SOMEWHAT DIFFERENT. PREOCCUPIED BY EVENTS IN CHILE AND PERHAPS CONCERNED BY THOUGHTS OF HIS OWN SUCCESSION, THE AGREEMENT NOT ONLY ADDED A POSSIBLE SOURCE OF ASSISTANCE BUT REMOVED A POTENTIAL THREAT TO THE STABILITY OF HIS REVOLUTION WITHOUT DETRACTING EITHER FROM ITS INTEGRITY OF INDEPENDENCE. END SUMMARY.

3. ON FEBRUARY 19, 1973, IN A SECRET MEETING WITH VELASCO, SPECIAL PRESIDENTIAL REPRESENTATIVE JAMES GREENE HANDED THE PERUVIAN PRESIDENT A LETTER FROM PRESIDENT NIXON SUGGESTING THAT THE U.S. AND PERU ATTEMPT ONCE AGAIN TO RESOLVE CERTAIN INVESTMENT DISPUTES WHICH FOR SEVERAL YEARS HAS POISONED RELATIONS BETWEEN THE TWO COUNTRIES. ON FEBRUARY 19, 1974, ONE YEAR TO THE DAY LATER, PERU AND THE UNITED STATES SIGNED AN AGREEMENT UNDER WHICH PERU AGREED TO PAY COMPENSATION OF \$76 MILLION (PLUS A NET OF \$34 MILLION IN RELATED REMITTANCES). THE EVENT HAS BEEN VIEWED IN THE U.S. PRESS AS A SIGNIFICANT ADMINISTRATION FOREIGN POLICY ACHIEVEMENT AND AS A LANDMARK IN U.S. RELATIONS NOT ONLY WITH PERU BUT POSSIBLY WITH LATIN AMERICA. IT IS OF SOME INTEREST TO CONSIDER WHAT BROUGHT THIS DEVELOPMENT ABOUT AND WHAT IMPLICATIONS IT MAY HAVE.

4. IMMEDIATE CONSIDERATIONS WERE PERHAPS THE MOST IMPORTANT, BUT SHORT RANGE HISTORICAL DEVELOPMENTS WERE SIGNIFICANT IN SETTING THE CONTEXT. IN OCTOBER 1968, THE ARMED FORCES OVERTHREW THE TOTTERING BELAUNDE REGIME, REPUDIATED THE ACT OF TALARA, AND SEIZED IPC, AN EVENT WHICH HAS SINCE BECOME THE SYMBOL OF THE PERUVIAN REVOLUTION. SUBSEQUENT EFFORTS BY THEN UNDER SECRETARY OF STATE IRWIN IN APRIL AND SEPTEMBER 1969 FAILED TO RESOLVE THE RESULTING DISPUTE BETWEEN THE U.S. AND PERU, AND THE

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PERUVIAN GOVERNMENT, UNDER THE SHADOW OF U.S. RETALIATORY LEGISLATION, EMBARKED ON ITS TWIN COURSE OF CONFRONTATION--WITH THE U.S. ABROAD AND WITH THE TRADITIONAL ECONOMIC AND SOCIAL ESTABLISHMENT AT HOME. IN RETROSPECT THE FAILURE OF THIS FIRST U.S. EFFORT WAS NOT SURPRISING; THE IRWIN MISSION WAS HANDICAPPED FROM THE OUTSET BY OTHER PROBLEMS SUCH AS THE SEIZURE OF U.S. FISHING BOATS, AND BY THE PERCEPTION OF THE REVOLUTIONARY GOVERNMENT

THAT AGREEMENT WITH THE U.S. OVER IPC WOULD EXPOSE IT TO ATTACK FROM THE VERY LEFTISTS AND NATIONALISTS WHO HAD SUPPORTED IT AGAINST BELAUNDE.

5. THE GREENE MISSION BEGAN UNDER MORE FAVORABLE CIRCUMSTANCES. THE VELASCO GOVERNMENT HAD BEEN IN OFFICE FOR

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C O N F I D E N T I A L SECTION 2 OF 5 LIMA 1798

LIMDIS

FOUR YEARS AND HAD BECOME MORE SELF-ASSURED--PERHAPS EVEN INSTITUTIONALIZED. ITS UNIQUE AND IN MANY RESPECTS GENUINELY REVOLUTIONARY PROGRAMS WERE WELL MATURED. THE INITIAL OVERTURE WAS DISCREET, AND PRESIDENT NIXON'S INITIATIVE PROBABLY FLATTERED VELASCO'S VANITY. FINALLY, THERE WAS UNDOUBTEDLY UNDERWAY A GROWING APPRECIATION ON THE PART OF THE GOVERNMENT THAT CONTINUED CONFRONTATION WITH THE U.S. WAS NOT IN PERU'S OWN SELF INTEREST. CONVERSELY, FOR VELASCO, IN FIRM CONTROL OF HIS COUNTRY, IT WOULD COST LITTLE TO EXPLORE WHAT THE U.S. MIGHT HAVE IN MIND. THERE ARE ALSO INDICATIONS THAT IT HAD OCCURED TO HIM THAT IT MIGHT BE POSSIBLE TO INCLUDE CERRO DE PASCO, ALREADY AT THAT TIME A PERUVIAN OBJECTIVE, IN A NEGOTIATED PACKAGE AT RELATIVELY LITTLE EXPENSE. IN ANY EVENT, VELASCO ACCEPTED THE OVERTURE, AND WHEN GREENE LEFT, IT APPEARED THAT THERE MIGHT BE A FURTHER MEETING IN MARCH.

6. BEFORE THE NEXT MEETING COULD TAKE PLACE, HOWEVER, A NUMBER OF IMPORTANT EVENTS OCCURED. VELASCO SUFFERED A NEAR FATAL ILLNESS, CIVIL DISTURBANCES BROKE OUT IN THE

SOUTH, PERU NATIONALIZED THE FISHMEAL INDUSTRY, AND SECRETARY OF STATE ROGERS PAID WHAT DEVELOPED INTO A SURPRISINGLY SUCCESSFUL VISIT TO LIMA. AGAINST THIS BACKDROP, GREENE'S SECOND VISIT IN MID-JUNE FOUND THE PERUVIAN GOVERNMENT WILLING TO TALK, BUT STILL BEMUSED BY THE CONTINUED EASY AVAILABILITY OF CREDIT FROM THE INTERNATIONAL BANK-
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ING COMMUNITY AND BY EXPECTATIONS OF SUPPORT FROM THE IBRD CONSULTATIVE GROUP MEETING IN PARIS. NONFERROUS METAL PRICES WERE HIGH, AND THE PROSPECTS OF INCREASED COPPER AND PETROLEUM OUTPUT BY 1977 OR EARLIER WERE BUOYANT. THE TWO SIDES REMAINED FAR APART. IN THE MEANTIME, DURING MEETINGS IN LIMA AIMED AT RESTRUCTURING OF THE OAS, PERU TOOK THE LEAD IN TAKING POSITIONS CONTRARY TO THOSE OF THE UNITED STATES.

7. THE SITUATION HAD CHANGED ONLY SLIGHTLY WHEN GREEN NEXT VISITED IN MID-AUGUST, ALTHOUGH IT WAS CLEAR THAT THE GOVERNMENT CONTINUED TO BE CONCERNED BY INTERNAL UNREST. SOME DEPORTATIONS HAD TAKEN PLACE, AND THE GOVERNMENT FELT IMPELLED TO STAGE A DEMONSTRATION BY CAMPESINOS IN FAVOR OF LAND REFORM TO COUNTER DISSATISFACTION AMONG MEDIUM AND SMALL FARMERS. WITH HIGH PRICES FOR IMPORTED WHEAT AND CONTINUED POOR PROSPECTS FOR FISHMEAL, THE BALANCE OF PAYMENTS PICTURE WAS ALSO LESS FAVORABLE. IT WAS IN THIS CONTEXT THAT THE PERUVIAN GOVERNMENT FINALLY AGREED TO THE CAREFULLY WORDED TEXT OF A FORMAL PUBLIC ANNOUNCEMENT OF THE NEGOTIATIONS WHICH WAS RELEASED ON AUGUST 9. PERU ALSO UPPED ITS OFFER FROM \$5 MILLION TO \$40 MILLION. NEVERTHELESS, THE GOVERNMENT WAS SEEMINGLY IN NO HASTE TO PURSUE NEGOTIATIONS, AND EARLY SEPTEMBER FOUND PRIME MINISTER MERCADO AT A MEETING IN CARACAS OF INTER-AMERICAN ARMY CHIEFS OF STAFF AND FOREIGN MINISTER DE LA FLOR IN ALGIERS AT A NONALIGNED CONFERENCE, WHERE BOTH TOOK STRIDENTLY ANTI-U.S. POSITIONS.

8. GREEN'S FOURTH VISIT TOOK PLACE IN LATE SEPTEMBER. IN THE MEANTIME, THE GOVERNMENT HAD BEEN FORCED TO REASSURE THE SMALL AND MEDIUM FARMERS, WHOSE DISCONTENT HAD BECOME MORE PRONOUNCED; MORE IMPORTANT, THE ALLENDE REGIME IN CHILE HAD BEEN OVERTHROWN. THUS, WHILE GREENE FOUND THE CABINET IN GENERAL AND VELASCO IN PARTICULAR HIGHLY EXERCISED OVER AN OFFENSIVE PUBLIC ANNOUNCEMENT BY THE CERRO CORPORATION, SUBSTANTIAL PROGRESS WAS MADE; SO MUCH SO THAT DETAILED NEGOTIATIONS ON THE TEXT OF AN AGREEMENT COULD GET UNDERWAY IN EARNEST. IN RETROSPECT, IT IS PROBABLE THAT THIS STAGE MARKED AN IMPORTANT TURNING POINT AS THE CABINET REALIZED THAT AN AGREEMENT WOULD
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BRING MAJOR BENEFITS TO PERU, WHILE FAILURE OF THE NEGOTIATIONS COULD ENTAIL CONTINUED U.S. OBSTRUCTION OF DEVELOPMENT FINANCING FOR PERU.

9. FURTHER VISITS IN THE EARLY PARTS OF NOVEMBER AND DECEMBER SAW ADDITIONAL PROGRESS, IN PARTICULAR, A CONSIDERABLE NARROWING OF DIFFERENCES OVER THE AMOUNT OF THE FINANCIAL SETTLEMENT, AGAINST THE BACKGROUND OF RENEWED DISTURBANCES IN THE SOUTH, GROWING PERUVIAN CONCERN AT THE ADVERSE IMPACT OF THE WORLD ENERGY CRISIS, AND VELASCO'S ACKNOWLEDGEMENT THAT PERU HAD PURCHASED SOVIET TANKS. ON DECEMBER 20, THE FOREIGN MINISTER EVEN CONFIDED TO THE AMBASSADOR THAT HE HOPED THE AGREEMENT COULD BE CONCLUDED BEFORE THE END OF THE YEAR. (HE WAS ALMOST CERTAINLY MOTIVATED BY THE FACT THAT THE NATIONALIZATION OF CERRO DE PASCO ON JANUARY 1 WAS THEN A FOREGONE CONCLUSION AND HE FEARED THE U.S. MIGHT REGARD THAT ACTION AS A PROVOCATION AND OVERTURN THE AGREEMENT.)

10. IN EARLY JANUARY, GREENE WROTE THE PRIME MINISTER TO SUGGEST A COMPROMISE FORMULA ON THE FINANCIAL SETTLEMENT, WHICH WAS ACCEPTED. NEVERTHELESS, THERE ENSUED CONSIDERABLE SKIRMISHING OVER THE EXACT AMOUNT OF THE REMITTANCES, INCLUDING A MAJOR PROBLEM INVOLVING A \$9 MILLION CLAIM AGAINST CERRO DE PASCO WHICH SUFRACED ONLY ON JANUARY 15, AND IT WAS NECESSARY FOR GREENE TO ENTER INTO ONE LAST NEGOTIATING SESSION ON FEBRUARY 7, 1974 TO MAKE IT PLAIN

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C O N F I D E N T I A L SECTION 3 OF 5 LIMA 1798

LIMDIS

THAT UNLESS THESE ISSUES WERE SATISFACTORILY RESOLVED, NO AGREEMENT COULD BE CONCLUDED. MOST OF THE DIFFICULTIES APPEAR TO HAVE BEEN CREATED BY MIDDLE AND UPPER LEVEL BUREAUCRATS EITHER CONCERNED ABOUT THEIR FUTURE LEGAL LIABILITY OR SEEKING TO BE OBSTRUCTIVE, AND WERE WORRISOMELY REMINISCENT OF THE DIFFICULTIES WHICH HAD FRUSTRATED BELAUNDE IN HIS EFFORTS TO REACH AGREEMENT WITH IPC.

11. HOWEVER, BY THIS TIME IT WAS CLEAR THAT THE PERUVIAN GOVERNMENT WAS DETERMINED (AT THE INSISTENCE OF PRESIDENT VELASCO, IT IS RUMORED) ON AN AGREEMENT, AND AT A CABINET MEETING ON FEBRUARY 12 THE FINAL PACKAGE WAS APPROVED. (EVEN AT THIS STAGE THERE WAS SOME OPPOSITION, AND THE VOTE ON THE RESOLUTION OF THE CERRO ISSUE WAS NINE IN FAVOR TO FOUR AGAINST, INCLUDING FOREIGN MINISTER DE LA FLOR/ AND, WE PRESUME, MINISTER OF ENERGY AND MINES FERNANDEZ MALDONADO AND THE REPRESENTATIVE OF MINISTER OF TRANSPORT AND COMMUNICATIONS MENESESL FINALLY, AFTER A FRENZIED WEEK OF ACTIVITY, INNUMERABLE LOOSE ENDS--SOME OF CONSIDERABLE COMPLEXITY--WERE TIED UP, AND THE AGREEMENT WAS SIGNED ON FEBRUARY 19, COINCIDENTALLY JUST THE DAY BEFORE THE FOREIGN MINISTERS' MEETING WITH SECRETARY KISSINGER IN MEXICO, ALTHOUGH THE U.S. PRESS HAS SPECULATED THAT THE TIMING WAS AT U.S. URGING, IT WAS ACTUALLY THE PERUVIAN SIDE THAT DISPLAYED CONFIDENTIAL

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THE MOST ANXIETY TO BRING THE NEGOTIATIONS TO A RAPID AND SUCCESSFUL CONCLUSION.

12. WAS THERE A TURNING POINT IN THE FOREGOING SERIES OF EVENTS AT WHICH VELASCO DECIDED THAT AN AGREEMENT WITH THE UNITED STATES WAS IN HIS INTEREST? OR WERE THERE A SERIES OF POINTS AT WHICH MINOR DECISIONS WERE MADE AND WHICH TAKEN CUMULATIVELY GRADUALLY NUDGED THE MATTER TOWARD CONCLUSION? THE LATTER SEEMS THE MOST PLAUSIBLE, WITH THE SHOCK OF ALLENDE'S DOWNFALL PROVIDING THE FINAL, IRREVERSIBLE IMPETUS. WITHIN THIS CONTEXT, SEVERAL MOTIVATING CONCERNS SUGGEST THEMSELVES:

A. ALLENDE'S OVERTHROW, THERE CAN BE NO DOUBT, CAME AS A DEEP SHOCK TO THE REVOLUTIONARY GOVERNMENT. WITH ARGENTINA APPARENTLY DRIFTING SOMEWHAT TO THE RIGHT UNDER

THE LEADERSHIP OF PERON, PERU SUDDENLY BECAME ISOLATED WITH ONLY CUBA (AND TO A CERTAIN EXTENT, PANAMA) FOR COMPANY ON THE LEFTWARD END OF THE HEMISPHERIC SPECTRUM. THE SPECTER OF A SIMILAR EVENT TAKING PLACE IN PERU WAS CHILLING AND IMPELLED THE PERUVIAN GOVERNMENT TO TAKE STEPS TO PROTECT ITS FLANKS, INCLUDING IMPORTANTLY THE REMOVAL OF A MAJOR IRRITANT IN ITS RELATIONS WITH THE U.S. PERU WAS ALSO NO DOUBT CONCERNED BY THE PROSPECT OF A RELIEVED UNITED STATES RUSHING TO RENDER ECONOMIC AND MILITARY ASSISTANCE TO THE CHILEAN JUNTA. FURTHER, THE REDUCED LIKELIHOOD OF THE U.S. BECOMING A POTENTIAL ANTAGONIST WOULD ALSO BE REASSURING TO SOMEONE WHO THINKS, AS VELASCO PROBABLY DOES, THAT THE U.S. GOVERNMENT HAS MORE THAN A LITTLE TO DO WITH ALLENDE'S OVERTHROW. REPORTS THAT CUBAN LEADERS, MOTIVATED BY FEAR OF LOSING A FRIENDLY REGIME IN PERU AS WELL AS IN CHILE, HAVE URGED VELASCO NOT TO FURTHER ANTAGONIZE THE U.S. LEND CREDENCE TO THIS BELIEF.

B. RELATED TO THE FOREGOING WAS UNDOUBTEDLY VELASCO'S CONCERN THAT "REVOLUTION WITH STABILITY", THE CENTRAL THEME OF HIS ADMINISTRATION, BE MAINTAINED. THERE WERE MANY INDICATIONS THAT THE GOVERNMENT, PARTICULARLY AFTER ALLENDE'S END, FELT ITSELF BELEAGUERED ON BOTH LEFT AND RIGHT, AND THAT THE DOMESTIC DISTURBANCES, AS A SIGN OF GROWING PUBLIC DISCONTENT, WERE THE SOURCES OF CONSIDERABLE

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WORRY. STRESSES HAVE ALSO BEEN APPARENT WITHIN THE CABINET? THE NAVY IN PARTICULAR, WAS DISTURBED BY THE NATIONALIZATION OF THE FISHMEAL INDUSTRY AND BY VELASCO'S ATTACKS ON FREEDOM OF THE PRESS, WHILE ON THE LEFT SOME GENERALS HAD LED THE GOVERNMENT TO TAKE EXPOSED POSITIONS FROM WHICH IT HAD SUBSEQUENTLY HAD TO RETREAT. THESE CONSIDERATIONS PROBABLY ASSUMED IMPORTANCE SOME TIME BEFORE GREENE'S SECOND VISIT IN AUGUST. FURTHER, SECRETARY ROGERS' VISIT, WHICH ENDED VERY WARMLY AFTER A COOL START, PROBABLY ALSO ENCOURAGED THE GOVERNMENT TO THE VIEW THAT THE SETTLEMENT OF DIFFERENCES WITH THE U.S. COULD CONTRIBUTE TO STABILITY AT A TIME WHEN OTHER PROPS WERE BEGINNING TO APPEAR UNCERTAIN.

C. ANOTHER PERUVIAN CONCERN WHICH GREW IN INTENSITY AFTER GREENE'S SECOND VISIT IN AUGUST STEMMED FROM INCREASING STRAINS ON THE PERUVIAN ECONOMY. THE CABINET WAS SHAKEN BY GREENE'S POINT IN ONE NEGOTIATING SESSION THAT, WITH THE EXCEPTION OF PREPARATORY WORK AT CAUAJONE, THERE HAD BEEN NO MAJOR FOREIGN INVESTMENT IN PERU FOR THE PAST SEVERAL YEARS. PERU'S BALANCE OF PAYMENTS PROBLEMS ALSO APPEARED MORE SERIOUS AS THE ENERGY CRISIS ADDED SOME \$100 MILLION TO ESTIMATED IMPORT COSTS. (ON

THE OTHER SIDE OF THE COIN IS THE FACT THAT HIGHER THAN
ANTICIPATED COPPER PRICES MADE THE ACQUISITION OF CERRO

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C O N F I D E N T I A L SECTION 4 OF 5 LIMA 1798

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A MORE ATTRACTIVE ECONOMIC PROPOSITION.) RESOLUTION
OF INVESTMENT DISPUTES WITH THE U.S. WOULD IMPROVE PERU'S

INTERNATIONAL CREDIT RATING, COULD INCREASE CONFIDENCE,
AND COULD OPEN THE DOOR NOT ONLY TO U.S. CREDITS THROUGH
THE EXPORT IMPORT BANK AND POSSIBLY CCC, BUT ALSO WOULD
LEAD TO A MORE COOPERATIVE U.S. ATTITUDE IN INTERNATIONAL
FINANCIAL INSTITUTIONS. THIS LAST POINT WAS UNDERSCORED
WHEN IN EARLY SEPTEMBER THE U.S. AGREED TO LET TWO IDB
LOANS GO FORWARD FOR PERU. (APPROVAL OF TWO IBRD LOANS,
ONE IN AUGUST AND ONE IN NOVEMBER, ALSO HELPED TO MAKE THIS
POINT.) IT IS INTERESTING IN THIS CONNECTION TO NOTE THAT,
BEGINNING WITH GREENE'S FOURTH VISIT IN LATE SEPTEMBER,
THE CABINET BECAME MUCH MORE RESPONSIVE TO HIS SUGGESTIONS
OF THE POSITIVE BENEFITS THAT COULD ACCRUE TO PERU FROM
REACHING AN AGREEMENT.

D. VELASCO MAY ALSO HAVE PERCEIVED IN AN AGREEMENT
A COUNTERBALANCE TO PERU'S RELATIONS WITH THE SOVIETS.
AS PREVIOUSLY REPORTED, AN ANALYSIS OF AVAILABLE FACTS
HAS LET THE EMBASSY TO BELIEVE THAT PERU'S DECISION TO
BUY SOVIET TANKS WAS PROBABLY REACHED IN LATE 1972 OR
EARLY 1973. THIS MAY HAVE BEEN AN ELEMENT IN VELASCO'S

DECISION TO PURSUE PRESIDENT NIXON'S PROPOSAL CONVEYED
BY GREENE IN FEBRUARY 1973. (ON THE OTHER HAND, IT IS
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ALSO ARGUABLE THAT THE PERUVIAN MILITARY, DISGRUNTLED
BY THE INABILITY OR UNWILLINGNESS OF THE U.S. TO SUPPLY
REQUESTED ARMS, BELIEVED THAT THE SOVIET PURCHASE WAS
FULLY JUSTIFIED AND THAT THE GOVERNMENT FELT NO COM-
PUNCTION TO MAKE A COMPENSATING GESTURE TOWARD THE UNITED
STATES.) IN ANY EVENT, IMPROVEMENT OF RELATIONS WITH
THE U.S. COULD HAVE THE EFFECT OF DISARMING SOME CRITICISM
FROM THE RIGHT--PARTICULARLY WITHIN THE CABINET--WHILE
THE TANK PURCHASE WOULD MAINTAIN VELASCO'S LEFTIST CRE-
DENTIALS. IN LATE DECEMBER, WHEN VELASCO FIRST PUBLICLY
ACKNOWLEDGED THAT PERU HAD BROUGHT THE TANKS, THE THOUGHT
MUST HAVE OCCURRED THAT SUBSEQUENT AGREEMENT ON INVESTMENT
WITH THE U.S. WOULD SERVE AS PUBLIC NOTICE OF U.S. ACCEP-
TANCE OF THE FACT.

E. FINALLY, AND PERHAPS MORE TENUOUS, IS THE PRO-
BABILITY THAT VELASCO HAS BEGUN TO WORRY OVER HIS SUCCE-
SSION AS WELL AS ASSURING THE PERMANENCY OF THE SOCIAL AND
ECONOMIC CHANGES OVER WHICH HE HAS PRESIDED. THERE HAVE
RECENTLY BEEN INDICATIONS OF FURTHER HEALTH PROBLEMS
WHICH NO DOUBT HEIGHTEN HIS SENSE OF MORALITY. AGREE-
MENT WITH THE U.S. WOULD PLACE A WELCOME STAMP OF RES-
PECTABILITY AND EVEN OF ACCEPTANCE ON THE PERUVIAN REVOLU-
TION. IF, BEFORE HE LEAVES OFFICE, VELASCO WERE TO PAY
AN OFFICIAL VISIT TO THE U.S., HE COULD WELL FEEL THAT
A FURTHER IMPORTANT STEP TOWARD LEGITIMIZING THE
PERUVIAN REVOLUTION AS NEITHER CAPITALIST NOR COM-
MUNIST HAD BEEN TAKEN.

13. FROM THE U.S. POINT OF VIEW, THE AGREEMENT MAY PRO-
PERLY BE REGARDED AS A SIGNIFICANT ACHIEVEMENT. IT
SERVES TO REAFFIRM THE PRINCIPLE OF ADEQUATE COMPENSA-
TION FOR EXPROPRIATED PROPERTIES. IT REMOVES A MAJOR
IRRITANT IN RELATIONS WITH PERU, ONE OF THE HEMISPHERE'S
SHRILLEST AND MOST PERSISTENT U.S. CRITICS. AS AN AC-
COMMODATION WITH A SOMETIME ANTAGONIST, IT IS CONSISTENT
WITH THE FRESH START THE U.S. IS SEEKING TO MAKE IN LATIN
AMERICA.

14. THERE ARE INDICATIONS THAT THE GOVERNMENT OF PERU
VIEWS THE AGREEMENT FROM A DIFFERENT PERSPECTIVE. SINCE
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IT CONSTITUTES AN INTERGOVERNMENTAL QUITCLAIM, THE PERUVIAN GOVERNMENT MAY THINK IT WELL WORTH THE PRICE TO KNOW THAT, EVEN IN THE EVENT OF A COUNTERREVOLUTION, THERE WILL BE NO RETURN OF ANY EXPROPRIATED PROPERTY AS OCCURED IN CHILE. IT CONSITUTES VISIBLE EVIDENCE FOR DOMESTIC AS WELL AS EXTERNAL CONSUMPTION THAT THE U.S. ACCEPTS PERU'S RIGHT TO EXPROPRIATE. IT ALSO OPENS THE DOOR TO ADDITIONAL SOURCES OF FINANCING, AND THERE IS NO DOUBT THAT THE U.S. WILL BE EXPECTED TO PLAY A MORE CONCTRUCTIVE ROLE, INCLUDING TAKING AN ACTIVE--IF NOT LEADING--PART IN THE NEXT MEETING OF THE IBRD CONSULTATIVE GROUP. PERU WILL ALMOST CERTAINLY FEEL MISLED IF THE U.S. DOES NOT. FINALLY, WHILE THE GOVERNMENT OF PERU NO DOUBT ALSO WELCOMES THE REMOVAL OF A SERIOUS IRRITANT IN ITS RELATIONS WITH A MAJOR WORLD POWER, THERE IS NO INDICATION THAT IT ALSO NECESSARILY WELCOMES THE AGREEMENT AS AN OPPORTUNITY FOR A GENERAL RAPPROCHEMENT, EITHER BILATERALLY OR WITHIN THE OAS (OR OTHER MULTILATERAL) CONTECT, WITH THE UNITED STATES. INDEED, THERE IS A REASON TO BELIEVE THAT, INASMUCH AS IN THE GOVERNMENT'S VIEW THE AGREEMENT NEUTRALIZES A POTENTIAL THREAT, IT FURTHER FREES THE GOVERNMENT TO PURSUE AN INDEPENDENT INTERNATIONAL COURSE. AS RECENTLY AS FEBRUARY 28, FOR EXAMPLE, PRIME MINISTER MERCADO EMPHASIZED TO A PUBLIC AUDIENCE THAT PERU AND THE UNITED STATES, AS LESS DEVELOPED AND DEVELOPED COUNTRIES, RESPECTIVELY, COULD BY DEFINITION HAVE NO INTERESTS IN COMMON.

15. WHILE MCUH OF THE FOREGOING IS SPECULATION, IT IS APPARENT THAT THERE WAS A GREAT DEAL IN THE INVESTMENT DISPUTES SETTLEMENT TO MAKE IT ATTRACTIVE TO VELASCO'S PERU, QUITEAPART FROM THE FACT THAT THE VALUE OF THE

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C O N F I D E N T I A L SECTION 5 OF 5 LIMA 1798

LIMDIS

ASSETS PERU RECEIVED FAR EXCEEDED \$76 MILLION. AS
VELASCO LOOKS ABOUT HIM AT THE PRESET STATE OF ARGENTINA,
CHILE AND EVEN CUBA, HE MUST DERIVE SOME SATISFACTION
AT THE RELATIVE SUCCESS AND STABILITY WHICH HAS ACCOM-
PANIED HIS OWN REVOLUTION, A STATE OF AFFAIRS TO WHICH
THE FEBRUARY 19 AGREEMENT WITH THE UNITED STATES HAS MADE
A FURTHER CONTRIBUTION.

16. REQUEST DEPARTMENT CONSIDER WHETHER THIS REPORT
SHOULD REMAIN LIMDIS OR BE GIVEN WIDER DISTRUBUTION TO
INCLUDE OTHER INTERESTED WASHINGTON AGENCIES. DEPART-
MENT MAY ALSO WISH TO CONSIDER LATERAL DISTRIBUTION IN
FIELD, PARTICULARLY TO OTHER ARA POSTS.
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Executive Order: GS
Errors: N/A
Film Number: n/a
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740361/aaaacewk.tel
Line Count: 568
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2002 by ifshinsr>; APPROVED <28 JAN 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GREENE MISSION - ELEMENTS LEADING PERU TO AGREEMENT AND THEIR IMPLICATIONS
TAGS: EIND, BDIS, EMIN, ENRG, EFIS, EFIN, PFOR, PE, US, CI
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005